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TREASURY FOR FRANCISO PARODI, JOANNA VELTRI AND ALEXANDER CORREA

E.O. 12958: DECL: 12/29/2018
TAGS: ECON EFIN TU
SUBJECT: TURKEY: TIGHTENED 2009 BUDGET WILL HELP PAVE WAY FOR IMF AGREEMENT

Classified By: Economic Counselor Dale Eppler for reasons 1.4 b, d

¶1. (C) Summary: The Turkish parliament approved the 2009 budget on December 27, While the budget as passed still contains some dubious macroeconomic assumptions, such as 4% GDP growth (private economists'estimates range from -4% to 2%), the GOT reduced planned expenditures by YTL 3.6 billion in the final week of debate in anticipation of reaching a new Stand By Agreement with the IMF in January. Treasury Minister Simsek told the Ambassador on December 24 that the GOT had reached agreement with the Fund on YTL 6 billion of spending cuts, and that the GOT planned to make most of those cuts in the 2009 budget. State Planning Agency Undersecretary Ahmet Tiktik told us that the GOT ultimately decided not to change the macroeconomic targets during the final week of debate, but would do so after the GOT and the Fund agree on new targets and an agreement is finalized. It will be easier to make further spending cuts after the GOT announces new macro targets agreed with the Fund, and the GOT may be able to delay submitting a revised budget until after March municipal elections. End summary.

¶2. (SBU) The Parliament approved the 2009 budget on schedule, but after the GOT introduced YTL 3.6 billion (approximately USD 2.4 billion) in expenditure reductions during the final week of debate. The budget projects a primary fiscal balance approximately 1.4% of GDP, with a YTL 10.4 billion budget deficit, down from YTL 13.4 billion in the original budget submission. Major cuts were made in agricultural subsidies, procurement and the investment accounts of the Directorate General for Highways, the Office of Water Utility, and of the Ministries of Education, Transportation, Health and Justice. To reduce health expenditures, co-payments for health services will be introduced for civil servants and green card (free health care) holders. Civil servants will receive a 4% wage hike and only 25% of civil service attrition vacancies will be filled.

¶3. (C) Treasury Minister Mehmet Simsek told Ambassdor Jeffery on December 24 that the GOT and the IMF had agreed on YTL 6 billion in spending cuts from the 2009 budget. Simsek said the GOT planned to make most of those cuts in the 2009 budget, although he noted that there was still some discussion on the "quality of the cuts" (Note: IMF staff had told us they were seeking "quality" spending cuts that avoided simply slashing investment across the board and instead reduced politically popular but less necessary employment, roadbuilding, etc. End note). With these cuts, Simsek believed that the GOT could close an agreement with the IMF in January.

¶4. (C) Despite the spending cuts, the GOT left the macroeconomic targets in the 2009 budget unchanged. These include 4% GDP growth, YTL 15.5 billion in privatization receipts, 7.5% inflation, and an average USD-lira exchange

rate of 1.4098. State Planning Agency Undersecretary Ahmed Tiktik told us December 29 that the GOT decided not to try to adjust these targets in the final days of debate, but instead would make them as soon as the GOT and the Fund agree on a revised set of assumptions and sign a new agreement.

¶5. (C) Comment: Politically, it will be easier for the GOT to make further spending cuts after it announces new macro targets agreed with the Fund, and it is possible the GOT will be able to delay submitting a revised budget until after March municipal elections. The 4% GDP growth figure for 2009 is highly optimistic, with private forecasts ranging from -4% (in the case of no IMF agreement) to 2%, most with downside risks. Slower growth means less revenue, and most additional cuts probably will result from reducing the growth assumption. Likewise, the privatization receipts assumption may need to be reduced given the difficult investment environment. The 7.5% inflation estimate, however, which seemed too low a few months ago, now looks achievable given the slowing economy. End comment.

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